

## Message Text

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ACTION AID-10

INFO OCT-01 SS-14 ISO-00 NSC-07 NSCE-00 SP-02 L-02 CIAE-00

INR-11 NSAE-00 RSC-01 EB-03 COME-00 TRSE-00 IGA-01

OMB-01 IO-03 XMB-01 DRC-01 /058 W

----- 003958

R 210635Z AUG 74

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 4023

C O N F I D E N T I A L DACCA 3744

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, BG

SUBJ: BDG FINANCIAL CRISIS AND DEVALUATION

REF: A. DACCA 3676; B. STATE 178452

1. WITH RESPECT TO SHORT-TERM BRIDGE FINANCING, REF B, WE HAVE LEARNED FROM VERY RELIABLE EXPATRIATE SOURCE THAT STATE BANK POLICY TO ALL BUT FREEZE THE HONORING OF LETTERS OF CREDIT HAS BEEN EFFECTIVE; THAT THE BDG IS NEGOTIATING LOAN AGAINST FORTHCOMING OIL FACILITIES; IS NEGOTIATING SHORT-TERM \$50 MILLION LOAN; AND IS NEGOTIATING FOR COMMERCIAL BANK GUARANTEE FOR ADDITIONAL L/C'S TOTALING \$50 MILLION.

2. IN SHORT, ACCORDING TO INFORMANT, BDG WILL HAVE BRIDGED ITS IMMEDIATE CASH NEEDS IN WEEK OR SO, REF B, PARA 3, SUFFICIENTLY TO HONOR MOST CRITICAL OUTSTANDING L/C'S. THIS WILL BE ACHIEVED HOWEVER AT SEVERE PRICE OF MORTGAGING FUTURE JUTE, PAYING EURO-DOLLAR RATES, CAUSING HIATUS IN SUPPLY OF IMPORTED PARTS AND RAW MATERIAL, AND COMPOUNDING ALREADY LARGE SHORT-TERM DEBT LIABILITY. FOREIGN EXCHANGE FREEZE IS CAUSING CESSATION OF PRODUCTION OF BATTERIES, ASSEMBLY OF ELECTRICAL ITEMS, SOME TYPES OF SHOES, AND MOST IMPORTANTLY, CIGARETTES, TAX UPON WHICH SUPPLIES 30 PERCENT BDG DOMESTIC REVENUE EARNINGS. ASSUMING BDG CAN NOW RELAX  
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L/C CONTROL, LAPSE IN SHIPPING ALONE WILL CAUSE SERIOUS SHORTAGES

OF BASIC ITEMS FOR AT LEAST REMAINDER OF CY 74 ADDING TO  
ALREADY SPIRALLING PRICE INFLATION.

3. WE HAVE ALSO LEARNED THAT PC DEPUTY CHAIRMAN (DC) HAS GIVEN  
VERBAL AGREEMENT TO IMF REP HERE THAT BDG WILL DEVALUE AND THIS  
AGREEMENT HAS BEEN CONVEYED BY REP TO IMF. THIS MAY BE BASIS  
FOR KNAPP REPORT TO EMERGENCY DONOR MEETING (REF B) THAT IMF  
COULD REASONABLY BE EXPECTED TO COVER \$100 MILLION OF SHORT-TERM  
REQUIREMENT. WE HAVE NO DETAILS ON THE TIMING OF ANY DEVALUATION.  
FURTHERMORE, EXPATRIATE SOURCE EXPRESSED CONCERN THAT DC MAY NOT  
BE AT OCTOBER CONSORTIUM MEETING AND THAT, PARTICULARLY IN LIGHT  
RUMORS OF REDUCED ROLE FOR PLANNING COMMISSION (REF A, PARA 7),  
HIS VERBAL AGREEMENT XMIGHT NOT SURVIVE FORMAL PROCESS OF BDG  
APPROVAL.

4. COMMENT: IN ADDITION TO CONCERNS RAISED REF A, PARA 2, RE-  
GARDING THE NEED TO TACKLE BANGLADESH ECONOMIC PROBLEMS IN COM-  
PREHENSIVE MANNER AND ACCOMPANIED DEVALUATION WITH OTHER POLICY  
CHANGES, MATTER OF WHETHER EXCHANGE RATE REFORM IS UNITARY OR  
MULTIPLE HAS IMPORTANT REVEUE AND DEVELOPMENTAL RAMIFICATIONS,  
INTER ALIA, AND NEEDS IMMEDIATE ANALYSIS FOR COMING MEETING.  
BOSTER

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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, FOREIGN EXCHANGE CONTROLS, DEVALUATIONS, LETTERS OF CREDIT, LOANS  
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